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SUBJECT: ASSISTANT USTR EISSENSTAT DISCUSSES PTPA WAY FORWARD WITH
TRADE MINISTER

11. (SBU) Summary: Assistant USTR Everett Eissenstat discussed Congressional passage of the Peru Trade Promotion Agreement (PTPA) during a visit to Peru August 31 - September 1, 2006 with Minister of Trade Mercedes Araoz, key trade officials and other government and private sector representatives. During his main working meeting at the Trade Ministry, Eissenstat urged GOP officials to focus on marshalling arguments for the U.S. Congress to pass the PTPA rather than pushing for renewal of Andean Trade Preference Act (ATPA/ATPDEA/ATPDEA) preferences. He stressed the importance of coordinating the GOP messages among the different players, such as Presidential envoy Hernando de Soto, Trade Minister Mercedes Araoz and the private sector. He urged GOP officials to be in a listening mode with the U.S. Congress and to try to address their concerns on labor and other issues in a coordinated fashion. End Summary.

Urgency of Passage

12. (SBU) Assistant U.S. Trade Representative Everett Eissenstat met with newly appointed Minister of Trade and Tourism Mercedes Araoz on September 1. Eissenstat was accompanied by the Ambassador, Deputy A/USTR Bennett Harman, USTR Director for Andean Affairs Michelle Carrillo, and Emboffs. Minister Araoz stressed that the GOP looked to swift passage of the PTPA by the U.S. Congress and entry into force as soon as possible because the uncertainty on timing was creating anxiety among Peruvian and American businesses. Eissenstat said the USG was strongly supportive of the PTPA and said the Garcia Administration's new team was very strong.

13. (SBU) Minister Araoz noted that implementation would take some time, so quick action by the U.S. Congress was needed to make entry into force by January 1 possible. She also explained that the Peruvian Congress' committees on the economy, agriculture, and trade were currently favorable to the Garcia Administration and the PTPA, and that the Garcia Administration was still enjoying its honeymoon phase. She said the later the Peruvian congress looked at passing implementing measures, the more difficult, noting that the PTPA would be "dead" if Ollanta Humala's party took over the chairmanship of the Agriculture Committee (it's currently chaired by President Garcia's APRA party). Eissenstat said this was a very compelling argument to keep moving the process along as expeditiously as possible.

Engaging US Congress

14. (SBU) Assistant USTR Eissenstat told the trade ministry officials that USTR was fully engaged with the U.S. Congress on the PTPA, and said he would be meeting with Senate staffers to discuss labor issues in Peru. Eissenstat recommended that on their first visits to Washington, Peruvian officials, including President Alan Garcia's special envoy for the PTPA Hernando de Soto, be in listening mode.

Bridging Any ATPA/ATPDEA-PTPA Gap

15. (SBU) The Peruvians asked if a very brief ATPA/ATPDEA extension would be possible if PTPA does not pass before January 1, or if the USG was planning other measures to bridge any time gap in order to avoid a spike in tariffs. They said textile companies, Peru's primary non-traditional export employer, were already losing U.S. clients who feared having to pay 20-23 percent tariffs (e.g. JC Penney recently dropped a Peruvian supplier), and that banks did not want to give investment loans due to the uncertainty of passage and entry into force timing. Minister Araoz said that U.S. buyers had also contacted the trade ministry because they wanted to keep their suppliers. She noted that the growth rate of textile exports to the U.S. had been cut in half in the last quarter and that potential investments were on hold or had gone elsewhere because of the uncertainty. Minister Araoz said the GOP was exploring whether it could insure Peruvian exporters against potential duty liabilities and asked if the USG could provide administrative relief in the event of a lapse in benefits.

16. (SBU) A/USTR Eissenstat assured the trade officials that the USG was engaged with the U.S. Congress on the problem, but that only Congress can extend benefits. He noted that many in Congress currently refused to consider an ATPA/ATPDEA extension, but that political will to solve the problem might increase as the PTPA momentum builds. He stressed that the primary objective should be to secure Congressional passage of the PTPA, since no passage would be much worse than a possible transition gap.

Resolving Beef SPS Issue

17. (SBU) Following a high-level meeting with President Garcia, envoy de Soto and Foreign Minister Garcia Belaunde on August 31, Araoz said a GOP multiagency working group would likely find a way to resolve the issue of exporting U.S. beef of over 30 months of age. She requested that USTR send a letter to the GOP similar to the one provided to Colombia, which stated that exported U.S. beef of over 30 months of age met the same standards as beef consumed in the U.S., scientifically safe, etc. She said this letter would give President Garcia cover to explain to the Peruvian public that the GOP was not giving in to arbitrary U.S. demands, but had received the adequate assurances that beef over 30 months was proven safe to consume. A/USTR Eissenstat said he would carry that request back to Washington.

Labor: Requesting Assistance

18. (SBU) Minister Araoz said the PTPA should prove less contentious on labor than CAFTA or the Oman FTA. She said President Garcia had prioritized improving labor conditions. The GOP has already been working on increasing the number of labor inspectors, improving rights for service workers and has "named and shamed" a list of several thousand companies with unpaid labor and workplace fines that totaled almost USD 50 million. Her team noted that some of the International Labor Organization (ILO) complaints had already been resolved or lifted. They said the GOP would be requesting labor capacity building funding from the U.S. and from the ILO similar to what was provided to other countries that concluded FTAs with the U.S.

19. (SBU) A/USTR Eissenstat said USTR would discuss labor issues with the U.S. Congress and with the GOP as they emerged. Minister Araoz

said it would be important to highlight this U.S.-Peru labor cooperation during President Garcia's October visit to Washington.

Implementation

¶10. (SBU) The Peruvian trade officials asked for USTR's guidance on how to proceed with implementation, stressing they wanted to avoid a painful process and have the agreement enter into force as soon as possible. They said they had already established interagency working groups and asked who would be their USG counterparts. A/USTR Eissenstat said that USTR would consult with the GOP on an implementation package, but urged that the focus for the immediate term be on U.S. Congressional consideration of the agreement. He mentioned the experience of the CAFTA countries and the need for quick and accurate translations, and said implementation issues could be discussed further during Minister Araoz's visit to Washington.

COMMENT

¶11. (SBU) A/USTR Eissenstat's discussions with Peruvian officials here have helped focus the government on what they will need to do as Congress considers the Peru Trade Promotion Agreement this fall. Business remains somewhat concerned on the timing of Congressional action on the agreement, and the potential downside if ATPA/ATPDEA expires and the agreement has not entered into force. President Garcia's naming of economist Hernando de Soto as his personal envoy and the President's own public reaffirmation of support for the PTPA have allayed some concerns at home and abroad. As Peruvian officials and private sector representatives step up their travel and consultations in Washington, the GOP will have a clearer picture

of how to better craft their message and work with their Congressional and USG interlocutors to obtain passage of this important agreement. End Comment.

¶12. (U) This cable has been cleared by USTR.

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